

**Houston Advanced Research Center**

Consolidated Financial Statements  
and Single Audit Reports  
for the year ended December 31, 2011

## Independent Auditors' Report

To the Board of Directors of  
Houston Advanced Research Center:

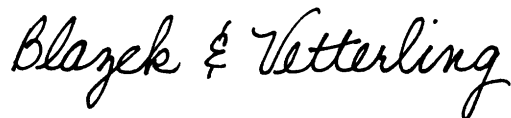
We have audited the accompanying consolidated statements of financial position of Houston Advanced Research Center as of December 31, 2011 and 2010 and the related consolidated statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the management of Houston Advanced Research Center. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Houston Advanced Research Center as of December 31, 2011 and 2010 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2012, on our consideration of Houston Advanced Research Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2011 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The accompanying schedule of expenditures of state awards for the year ended December 31, 2011 is presented for purposes of additional analysis as required by the *State of Texas Single Audit Circular*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditures of federal and state awards are fairly stated in all material respects in relation to the consolidated financial statements as a whole.



July 25, 2012

## Houston Advanced Research Center

Consolidated Statements of Financial Position as of December 31, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	\$ 1,364,673	\$ 1,339,067
Accounts receivable, net of allowance for doubtful accounts of \$35,000 in 2011 and 2010	718,785	3,015,417
Pledges receivable	30,000	25,000
Other assets	96,604	87,812
Note receivable from Texas Environmental Research Consortium (Note 2)	150,000	300,000
Prepaid rent (Note 3)	111,875	335,625
Property and equipment, net (Note 4)	<u>1,221,280</u>	<u>1,183,813</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,693,217</u></b>	<b><u>\$ 6,286,734</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 563,649	\$ 2,975,362
Accrued expenses	265,889	249,678
Deferred revenue	442,085	73,577
Note payable (Note 5)	<u>1,165,746</u>	<u>820,000</u>
Total liabilities	<u>2,437,369</u>	<u>4,118,617</u>
Net assets:		
Unrestricted	758,162	1,320,517
Temporarily restricted (Note 6)	<u>497,686</u>	<u>847,600</u>
Total net assets	<u>1,255,848</u>	<u>2,168,117</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 3,693,217</u></b>	<b><u>\$ 6,286,734</u></b>

*See accompanying notes to consolidated financial statements.*

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## Houston Advanced Research Center

Consolidated Statement of Activities for the year ended December 31, 2011

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Research contracts and grants <i>(Note 7)</i>	\$ 6,546,803		\$ 6,546,803
Contributions <i>(Note 8)</i>	1,680,965	\$ 538,416	2,219,381
Other income	<u>52,575</u>	<u>          </u>	<u>52,575</u>
Total revenue	8,280,343	538,416	8,818,759
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>888,330</u>	<u>(888,330)</u>	<u>          </u>
Total	<u>9,168,673</u>	<u>(349,914)</u>	<u>8,818,759</u>
<b>EXPENSES:</b>			
Program expenses:			
Environment	4,953,027		4,953,027
Energy and Building Solutions	2,316,557		2,316,557
L3CS Initiative	<u>207,180</u>		<u>207,180</u>
Total program expenses	7,476,764		7,476,764
Management and general	2,230,834		2,230,834
Fundraising	<u>23,430</u>		<u>23,430</u>
Total expenses	<u>9,731,028</u>		<u>9,731,028</u>
CHANGES IN NET ASSETS	(562,355)	(349,914)	(912,269)
Net assets, beginning of year	<u>1,320,517</u>	<u>847,600</u>	<u>2,168,117</u>
Net assets, end of year	<u>\$ 758,162</u>	<u>\$ 497,686</u>	<u>\$ 1,255,848</u>

*See accompanying notes to consolidated financial statements.*

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## Houston Advanced Research Center

Consolidated Statement of Activities for the year ended December 31, 2010

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Research contracts and grants <i>(Note 7)</i>	\$13,139,313		\$13,139,313
Contributions <i>(Note 8)</i>	1,876,000	\$ 256,605	2,132,605
Other income	<u>100,812</u>	<u>          </u>	<u>100,812</u>
Total revenue	15,116,125	256,605	15,372,730
Net assets released from restrictions:			
Satisfaction of program restrictions	2,172,798	(2,172,798)	
Expiration of time restriction	<u>100,778</u>	<u>(100,778)</u>	<u>          </u>
Total	<u>17,389,701</u>	<u>(2,016,971)</u>	<u>15,372,730</u>
EXPENSES:			
Program expenses:			
Environment	8,980,573		8,980,573
Energy and Building Solutions	5,666,666		5,666,666
L3CS Initiative	<u>300,559</u>	<u>          </u>	<u>300,559</u>
Total program expenses	14,947,798		14,947,798
Management and general	2,160,469		2,160,469
Fundraising	<u>36,827</u>	<u>          </u>	<u>36,827</u>
Total expenses	<u>17,145,094</u>	<u>          </u>	<u>17,145,094</u>
CHANGES IN NET ASSETS	244,607	(2,016,971)	(1,772,364)
Net assets, beginning of year	<u>1,075,910</u>	<u>2,864,571</u>	<u>3,940,481</u>
Net assets, end of year	<u>\$ 1,320,517</u>	<u>\$ 847,600</u>	<u>\$ 2,168,117</u>

*See accompanying notes to consolidated financial statements.*

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## Houston Advanced Research Center

### Consolidated Statements of Cash Flows for the years ended December 31, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (912,269)	\$(1,772,364)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Amortization of prepaid rent	223,750	223,750
Depreciation	200,119	188,456
Loss on valuation of note receivable	150,000	
Changes in operating assets and liabilities:		
Accounts receivable	2,296,632	2,145,926
Pledges receivable	(5,000)	249,718
Other assets	(8,792)	(66,111)
Accounts payable	(2,411,713)	(2,081,700)
Accrued expenses	16,211	13,697
Deferred revenue	<u>368,508</u>	<u>73,577</u>
Net cash used by operating activities	<u>(82,554)</u>	<u>(1,025,051)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	<u>(22,674)</u>	<u>(52,457)</u>
Net cash used by investing activities	<u>(22,674)</u>	<u>(52,457)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from note payable	135,088	
Repayment of note payable	<u>(4,254)</u>	
Net cash provided by financing activities	<u>130,834</u>	
<b>NET CHANGE IN CASH</b>	<b>25,606</b>	<b>(1,077,508)</b>
Cash, beginning of year	<u>1,339,067</u>	<u>2,416,575</u>
Cash, end of year	<u>\$ 1,364,673</u>	<u>\$ 1,339,067</u>
<i>Supplemental disclosure of cash flow information:</i>		
Purchase of property and equipment with proceeds from note payable	\$214,912	\$820,000
Interest paid	\$7,628	\$1,597

*See accompanying notes to consolidated financial statements.*

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## Houston Advanced Research Center

Notes to Consolidated Financial Statements for the years ended December 31, 2011 and 2010

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### NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston Advanced Research Center (the Center), a Texas nonprofit corporation, is a university-affiliated organization focusing on research in human and ecosystem well-being. Major research interests are in the areas of the environment, energy, and policy analysis. The primary source of funding is research grants and contracts from both public and private sources. Philanthropic support provides funds for internal research and for expenditures not recovered from sponsored research activities.

HARC Technology, Inc. (HTI) is a wholly-owned subsidiary of the Center formed for the purpose of facilitating the transfer of promising technologies from the laboratory to the private sector.

Principles of consolidation – The consolidated financial statements include the accounts of the Center and HTI (collectively HARC). All significant intercompany balances and transactions are eliminated in consolidation.

Federal income tax status – The Center is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2). The Center files annual federal information returns. The Center is subject to routine examinations of its returns; however, there are no examinations for any tax periods currently in progress. The Center believes it is no longer subject to examinations of returns for tax years ending before December 31, 2008. HTI is a for-profit corporation subject to federal income taxes and has reported net operating losses for tax purposes since its inception. No deferred tax asset has been recognized because of the uncertainty regarding the ultimate realization of this benefit.

Allowance for doubtful accounts – HARC provides an allowance for accounts receivable that it believes it may not collect in full. The amount of bad debt expense recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and customer-by-customer analysis of accounts receivable balances.

Pledges receivable that are due within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are reported at the present value of the expected future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. At December 31, 2011, all pledges receivable are expected to be collected within one year.

Property and equipment are reported at cost, if purchased, or at fair value at the date of gift, if donated. Additions and improvements with a cost of more than \$5,000 are capitalized. Depreciation is provided using the straight-line method over estimated useful lives of 3 to 5 years for furniture and equipment and 10 to 31 ½ years for leasehold improvements.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.

- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or future time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Research contracts and grants are recognized as revenue when the related services are provided. Amounts received in advance are reported as deferred revenue.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional promises to give are recognized in the same manner when the conditions are substantially met.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

#### **NOTE 2 – NOTE RECEIVABLE FROM TEXAS ENVIRONMENTAL RESEARCH CONSORTIUM**

Note receivable represents an unsecured promissory note from Texas Environmental Research Consortium (TERC). The note is renewable until July 2012 with interest due within 30 days of each renewal period. The interest rate is the higher of the rate earned by HARC on its money market account or the rate HARC pays on outstanding balances on its line of credit.

#### **NOTE 3 – PREPAID RENT**

In 2002, HARC sold an office complex consisting of land and two buildings in exchange for cash and the future use of one of the buildings for a ten-year period. An amount equal to the difference between the appraised value of the complex and the cash proceeds from the sale was recognized as prepaid rent and is being amortized on a straight-line basis through 2012.

#### **NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 829,376	\$ 829,376
Leasehold improvements	890,963	890,963
Furniture and equipment	<u>751,186</u>	<u>513,600</u>
Total property and equipment, at cost	2,471,525	2,233,939
Accumulated depreciation	<u>(1,250,245)</u>	<u>(1,050,126)</u>
Property and equipment, net	<u>\$ 1,221,280</u>	<u>\$ 1,183,813</u>

During 2010, HARC acquired a 3.5 acre tract of land on which it plans to construct an office building. There were no outstanding commitments related to such plans at December 31, 2011.



## NOTE 5 – NOTE PAYABLE

HARC has a \$1,500,000 unsecured line of credit agreement with the Endowment for Regional Sustainability Science with interest at LIBOR plus .50% (0.71% at December 31, 2011). Interest is payable quarterly and the unpaid principal is payable upon expiration date of the agreement on December 31, 2013.

## NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Third Ward Sustainability Project	\$ 121,635	
Industrial Energy Efficiency Outreach	112,953	\$ 94,920
Astrophysics Research	94,364	
IFAS upgrades	79,008	79,008
Texas Climate Initiatives	47,534	111,156
Origins & Fate of Our Universe	18,856	
Environmentally Friendly Drilling Project	12,767	26,794
Internships	8,391	8,391
Solar Energy Pilot Program	2,178	321,806
Texas Fuels		193,786
Solar Project		<u>11,739</u>
Total temporarily restricted net assets	<u>\$ 497,686</u>	<u>\$ 847,600</u>

## NOTE 7 – RESEARCH CONTRACTS AND GRANTS

Revenue from research contracts and grants includes the following:

	<u>2011</u>	<u>2010</u>
Federal government contracts and grants:		
U.S. Department of Energy	\$ 1,956,397	\$ 2,851,849
U.S. Environmental Protection Agency	1,115,670	3,822,109
U.S. Geological Survey	165,404	248,931
U.S. Fish & Wildlife Service	77,324	70,752
U.S. Department of Commerce	58,347	78,015
U.S. Agency for International Development	23,567	
U.S. Department of the Interior	<u>125</u>	<u>500</u>
Total federal government contracts and grants	<u>3,396,834</u>	<u>7,072,156</u>
State and local government contracts and grants:		
Texas Commission on Environmental Quality	2,673,143	5,880,801
Texas Water Development Board	4,529	2,238
Texas Facilities Commission		<u>20,000</u>
Total state and local government contracts and grants	<u>2,677,672</u>	<u>5,903,039</u>
Private research contracts and grants	<u>472,297</u>	<u>164,118</u>
Total research contracts and grants	<u>\$ 6,546,803</u>	<u>\$ 13,139,313</u>

HARC receives grants from federal and state funding sources that require fulfillment of certain conditions as set forth in the related contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by HARC with the terms of the contracts. Management believes such disallowances, if any, would not be material to HARC's financial position or changes in net assets.

#### **NOTE 8 – CONCENTRATIONS**

During 2011, HARC received \$1,680,000 in contributions from one donor which represents 19% of total revenue. During 2010, HARC received \$1,876,000 in contributions from one donor which represents 12% of total revenue.

#### **NOTE 9 – RELATED PARTY TRANSACTIONS**

HARC subcontracted research services with the employers of certain members of the HARC board of directors totaling approximately \$371,000 and \$1,000,000 during 2011 and 2010, respectively. These subcontractors were obtained through a competitive award process or based on their technical qualifications.

#### **NOTE 10 – RETIREMENT PLAN**

HARC has a tax sheltered annuity plan (the Plan) established under §403(b) of the Internal Revenue Code. Under the terms of the Plan, HARC contributes a minimum of five percent of the participating employees' regular monthly salaries. In addition, HARC will match one-half percent for each percent the employee contributes up to six percent, for a maximum HARC contribution of eight percent of regular salary. HARC contributed to the Plan approximately \$233,000 in 2011 and \$219,000 in 2010.

#### **NOTE 11 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through July 25, 2012, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

## Houston Advanced Research Center

### Schedule of Expenditures of Federal Awards for the year ended December 31, 2011

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<u>GRANTOR</u> <u>Pass-through Grantor</u> <u>Program Title &amp; Period</u>	<u>CFDA #</u>	<u>Contract Number</u> <u>or Pass-through</u> <u>Grantor Number</u>	<u>Award</u> <u>Amount</u>	<u>Revenue</u>	<u>Allowable</u> <u>Expenses</u>
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT					
Passed through International Resources Group: E&E Regional Energy Security & Market Development					
#1	05/12/11 – 05/31/11	98.xxx	4006-FP1	\$17,530	\$ 16,863
#2	09/02/11 – 05/31/12	98.xxx	4006-002-FP2	\$56,282	<u>6,704</u>
Total U.S. Agency for International Development				<u>23,567</u>	<u>23,567</u>
U.S. DEPARTMENT OF COMMERCE					
Passed through Gulf & South Atlantic Fisheries Foundation: Marine Fisheries Initiative – Conducting Drop-off-pick-up Survey to Assess Well-being in Fishing Communities					
#3	08/01/10 – 07/31/11	11.433	112-01-38901/0	\$38,901	7,198
Unallied Management Projects – The Role of Shrimp Imports in the Decline of Shrimp Reliant Communities in the Gulf of Mexico					
#4	08/01/10 – 07/31/12	11.454	114-01-82772/0	\$82,772	<u>51,149</u>
Total U.S. Department of Commerce				<u>58,347</u>	<u>58,347</u>
U.S. FISH & WILDLIFE SERVICE					
Passed through Texas Parks & Wildlife Department: State Wildlife Grants – Freshwater Aquarium Hobbyists in the Houston-Galveston Region and Non-native Aquatic Species					
#5	11/10/08 – 12/31/11	15.634	198496	\$200,000	<u>77,324</u>
U.S. GEOLOGICAL SURVEY					
U.S. Geological Survey – Research and Data Collection National Biological Information Infrastructure					
#6	08/01/10 – 06/30/11	15.808	G09PC00065	\$255,000	<u>165,404</u>

(continued)

# Houston Advanced Research Center

Schedule of Expenditures of Federal Awards for the year ended December 31, 2011 (continued)

<u>GRANTOR</u>			<u>Contract Number</u>			
<u>Pass-through Grantor</u>			<u>or Pass-through</u>	<u>Award</u>		<u>Allowable</u>
<u>Program Title &amp; Period</u>	<u>CFDA #</u>		<u>Grantor Number</u>	<u>Amount</u>	<u>Revenue</u>	<u>Expenses</u>
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>						
Caterpillar 3500 Marine Retrofit – ARRA						
#7	08/01/09 – 10/31/11	66.039	2A-83441801-0	\$1,556,733	46,565	46,565
National Clean Diesel Emissions Reduction Program – EPA Diesel Vehicle Emissions Reduction – ARRA						
#8	08/01/09 – 07/31/12	66.039	2A-83442001-0	\$2,362,843	384,090	384,090
Simultaneous Emissions Reduction and Fuel Savings						
#9	05/20/10 – 03/31/12	66.039	DE-00F11301-1	\$811,934	<u>281,287</u>	<u>281,287</u>
Subtotal					<u>711,942</u>	<u>711,942</u>
Passed through City of Houston:						
Climate Showcase Communities Grant Program – Houston Climate Showcase						
#10	01/25/10 – 09/27/12	66.041	4600007403	\$187,000	85,324	87,236
Passed through Galveston Bay Estuary Program:						
Water Quality Management Planning – Watershed Characterization Report for the East and West Forks of Double Bayou – ARRA						
#11	08/18/09 – 10/31/11	66.454	582-9-84999	\$268,322	199,182	199,182
Passed through Texas Commission on Environmental Quality:						
Gulf of Mexico Program – Characterization of the Galveston Bay Ecosystem, 3 <sup>rd</sup> Edition FY09						
#12	07/24/08 – 01/16/12	66.475	582-8-84951	\$137,919	14,746	14,746
Gulf of Mexico Program – Characterization of the Galveston Bay Ecosystem, 3 <sup>rd</sup> Edition FY10						
#13	08/23/10 – 01/16/12	66.475	582-8-84951	\$138,882	<u>98,023</u>	<u>98,023</u>
Subtotal					<u>397,278</u>	<u>399,187</u>
Passed through Galveston Bay Foundation:						
Superfund Technical Assistance Grants – Technical Assistance for the San Jacinto Waste Pits Superfund Site						
#14	09/08/11 – 12/31/13	66.806	GBF-HARC-01-0	\$37,500	<u>6,450</u>	<u>6,450</u>
Total U.S. Environmental Protection Agency					<u>1,115,670</u>	<u>1,117,579</u>

(continued)

# Houston Advanced Research Center

Schedule of Expenditures of Federal Awards for the year ended December 31, 2011 *(continued)*

<u>GRANTOR</u>			Contract Number			
<u>Pass-through Grantor</u>			or Pass-through	Award		Allowable
<u>Program Title &amp; Period</u>	<u>CFDA #</u>		<u>Grantor Number</u>	<u>Amount</u>	<u>Revenue</u>	<u>Expenses</u>
U.S. DEPARTMENT OF ENERGY						
Renewable Energy Research and Development						
Gulf Coast Clean Energy Application Center						
#15	10/01/09 – 10/31/12	81.087	DE-EE0001103	\$1,910,275	615,203	615,203
Battleground Energy Recovery Project						
#16	07/01/09 – 12/31/11	81.087	DE-EE0002028	\$777,802	154,060	154,060
Hydrogen Education in Texas						
#17	08/01/08 – 02/28/11	81.087	DE-FG36-08GO18112	\$177,847	13,551	13,551
Passed through Port of Galveston:						
Port of Galveston Solar Energy Project						
#18	09/26/11 – 12/31/12	81.087	EE003177	\$250,000	1,585	1,585
Passed through Texas H2 Coalition:						
Texas Hydrogen Highway						
#19	09/01/08 – 02/28/11	81.087	None	\$20,941	<u>1,997</u>	<u>1,997</u>
Subtotal					<u>786,396</u>	<u>786,396</u>
Passed through Port of Galveston:						
State Energy Program – Port of Galveston Solar Energy Project – ARRA						
#20	06/28/11 – 04/30/12	81.041	CS1082	\$900,000	33,656	33,656
Passed through City of Houston:						
Solar Generator Program – ARRA						
#21	04/28/10 – 04/30/12	81.041	4600007403	\$77,525	31,775	31,775
Passed through Pasadena Independent School District:						
Solar School						
#22	09/14/10 – 08/31/11	81.041	CM1106/CM1107	\$205,000	<u>196,288</u>	<u>196,288</u>
Subtotal					<u>261,719</u>	<u>261,719</u>
Passed through Research Partnership to Secure Energy for America:						
Fossil Energy Research and Development						
Deep Sea Hybrid Power Systems						
#23	10/31/08 – 10/31/10	81.089	07121-1902	\$480,000	2,052	2,052
Environmentally Friendly Drilling Systems						
#24	07/24/09 – 07/23/12	81.089	08122-35	\$2,199,895	<u>622,742</u>	<u>622,742</u>
Subtotal					<u>624,794</u>	<u>624,794</u>

*(continued)*

## Houston Advanced Research Center

Schedule of Expenditures of Federal Awards for the year ended December 31, 2011 *(continued)*

<u>GRANTOR</u>			<u>Contract Number</u>				
<u>Pass-through Grantor</u>			<u>or Pass-through</u>		<u>Award</u>		<u>Allowable</u>
<u>Program Title &amp; Period</u>	<u>CFDA #</u>		<u>Grantor Number</u>		<u>Amount</u>	<u>Revenue</u>	<u>Expenses</u>
U.S. DEPARTMENT OF ENERGY <i>(continued)</i>							
Passed through City of Houston:							
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance – Solar Houston Initiative							
#25	06/01/08 – 04/30/12	81.117	4600007403-2		\$206,332	20,601	26,029
Energy Efficiency and Conservation Block Grant – ARRA							
#26	01/27/10 – 09/27/12	81.128	4600007403 WA#2		\$453,182	104,647	110,928
#27	03/05/10 – 07/30/11	81.128	4600007403 WA#3B		\$196,006	12,071	13,480
#28	05/10/10 – 09/27/12	81.128	4600007403 WA#5		\$197,890	48,821	48,821
#29	01/01/10 – 09/27/12	81.128	4600007403 WA#6		\$145,000	35,690	35,690
#30	01/01/11 – 09/27/12	81.128	4600007403 WA#7		\$20,000	12,413	12,413
#31	01/01/11 – 09/27/12	81.128	4600007403 WA#8		\$3,144,958	<u>49,245</u>	<u>49,245</u>
Subtotal						<u>283,488</u>	<u>296,606</u>
Total U.S. Department of Energy						<u>1,956,397</u>	<u>1,969,515</u>
U.S. DEPARTMENT OF THE INTERIOR							
Passed through National Oceanic and Atmospheric Administration:							
Gulf of Mexico Fishery Management Council’s Ecosystem SSC Advisory Committee							
#32	12/01/09 – 12/31/11	15.xxx	None		\$1,366	<u>125</u>	<u>125</u>
TOTAL FEDERAL AWARDS						<u>\$ 3,396,834</u>	<u>\$ 3,406,723</u>

*See accompanying note to schedules of expenditures of federal and state awards.*

## Houston Advanced Research Center

Schedule of Expenditures of State Awards for the year ended December 31, 2011

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### STATE GRANTOR

#### Pass-through Grantor

<u>Program Title &amp; Period</u>	<u>Contract Number</u>	<u>Award Amount</u>	<u>Revenue</u>	<u>Allowable Expenses</u>
<b>TEXAS COMMISSION ON ENVIRONMENTAL QUALITY</b>				
Passed through GRIDbot, LLC:				
Electric Vehicle & Charging Infrastructure				
#S1 01/01/11 – 02/29/12	2010-7-0028	\$97,373	\$ 68,147	\$ 68,147
Passed through Quantlogic Corporation:				
Verification-Ready Prototype/Demonstration of Retrofittable Dual Loop EGR System for No After Treatment Nox Reduction				
#S2 06/24/11 – 05/31/13	582-11-13469-2019	\$309,046	68,671	68,671
Passed through Texas Environmental Research Consortium:				
New Technology Research and Development Program FY09				
#S3 09/01/08 – 08/31/11	582-6-70848	\$8,693,951	<u>2,536,325</u>	<u>2,536,325</u>
Total Texas Commission on Environmental Quality			<u>2,673,143</u>	<u>2,673,143</u>
<b>TEXAS WATER DEVELOPMENT BOARD</b>				
Texas Water Development Board Advisory Committee				
#S4 10/01/10 – 08/31/11	None	\$15,000	<u>4,529</u>	<u>4,529</u>
<b>TOTAL STATE AWARDS</b>			<u>\$ 2,677,672</u>	<u>\$ 2,677,672</u>

*See accompanying note to schedules of expenditures of federal and state awards.*

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## Houston Advanced Research Center

Note to Schedules of Expenditures of Federal and State Awards for the year ended December 31, 2011

### **NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

Basis of presentation – The schedules of expenditures of federal and state awards are prepared on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for federal awards and the *Uniform Grant and Contract Management Standards* for state awards. Allowable expenses are determined in accordance with the standards of OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, for federal awards and the *Texas Uniform Grant and Contract Management Standards* for state awards, and are expensed in the statement of activities in conformity with generally accepted accounting principles.

Major programs – All of HARC's programs fall within the Research and Development cluster and, as such, are major programs.

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**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

To the Board of Directors of  
Houston Advanced Research Center:

We have audited the consolidated financial statements of Houston Advanced Research Center (HARC) as of and for the year ended December 31, 2011 and have issued our report thereon dated July 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

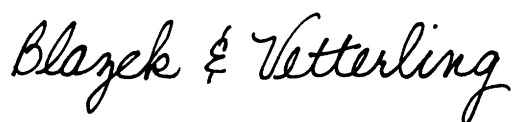
Internal Control Over Financial Reporting – The management of HARC is responsible for establishing and maintaining effective control over financial reporting. In planning and performing our audit, we considered HARC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HARC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of HARC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters – As part of obtaining reasonable assurance about whether HARC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our audit tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board of directors, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



July 25, 2012

**Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State of Texas Single Audit Circular**

To the Board of Directors of  
Houston Advanced Research Center:

Compliance – We have audited the compliance of Houston Advanced Research Center (HARC) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and in the *State of Texas Single Audit Circular* that could have a direct and material effect on each of HARC’s major federal and state programs for the year ended December 31, 2011. HARC’s major federal and state programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of HARC’s management. Our responsibility is to express an opinion on HARC’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and in the *State of Texas Single Audit Circular*. Those standards and circulars require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about HARC’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on HARC’s compliance with those requirements.

In our opinion, HARC complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2011.

Internal Control Over Compliance – The management of HARC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered HARC’s internal control over compliance with the requirements that could have a direct and material effect on a major federal and state program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HARC’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal and state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal and state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Blazek & Vetterling*

July 25, 2012

# Houston Advanced Research Center

Schedule of Findings and Questioned Costs for the year ended December 31, 2011

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## Section I – Summary of Auditor’s Results

### Financial Statements

Type of auditor’s report issued:       unqualified    qualified    adverse    disclaimer

Internal control over financial reporting:

- Material weakness(es) identified?       yes       no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?       yes       none reported

Noncompliance material to the financial statements noted?       yes       no

### Federal and State Awards

Internal control over major programs:

- Material weakness(es) identified?       yes       no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?       yes       none reported

Type of auditor’s report issued on compliance for major programs:       unqualified    qualified    adverse    disclaimer

Any audit findings disclosed that are required to be reported in accordance with §510(a) of Circular A-133?       yes       no

Identification of major programs:

CFDA Number(s)      Name of Federal Program or Cluster

Various      Research and Development

Identifying Number(s)      Name of State Program or Cluster

Various      Research and Development

Dollar threshold used to distinguish between Type A and Type B programs:      \$300,000

Auditee qualified as a low-risk auditee?       yes       no

## Section II – Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

## Section III – Federal and State Award Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with §.510(a) of OMB Circular A-133, and no findings for state awards required to be reported in accordance with §.510(a) of the *State of Texas Single Audit Circular*.